

How Much Does Workers' Compensation Insurance Cost?

The cost of workers' compensation insurance is determined by the workers' compensation board in your state. Although base rates vary slightly from state to state, the basic process each state uses to calculate base rates is similar.

Each type of occupation is assigned a risk classification. Risk is determined by two factors: the frequency of on-the-job injury and the severity of injury. Severity is measured by both medical payments and indemnity benefits (payments made directly to the injured employee to compensate for losses suffered as a result of an accident).

In California, for example, roofers have the highest occupational risk classification, and office clerks have the lowest. Obviously the occupational hazards of a roofer are much different and quite a bit higher than those of an office clerk. Therefore, workers' compensation rates are much higher for roofing companies than for administrative companies.

To arrive at a base rate for workers' compensation insurance, each classification is translated into a dollar amount, which is then multiplied by 1 percent per \$100 of the total payroll for that employee. For example, the office clerk classification in California is roughly \$1.25 per \$100. So if that employee is paid \$500 per week, the workers' compensation insurance premium for that employee costs roughly \$6.25 per week.

Workers' compensation insurance carriers can reduce or increase base rates based on a number of factors. The most important factor is the employer's safety history. Another important factor is whether or not the employer offers health insurance to their employees.